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SUBJECT: BELARUS: REGIME CRYING OVER SPILT MILK AS SPAT WITH MOSCOW
WIDENS

MINSK 00000173 001.2 OF 002

Summary

¶1. (SBU) While there is no break between the countries, a Russian block on Belarusian dairy exports is just the latest manifestation of a vitriolic conflict between Minsk and Moscow as traditional Kremlin disdain for President Lukashenka (and the formerly-vaunted "Belarusian economic miracle") reaches higher levels. Growing GOB panic about the consequences of the global financial crisis plays a factor in negative reactions to Russian comments about the weaknesses of the Belarusian economy. The dispute has political antecedents as well, including the continued Belarusian non-recognition of South Ossetia and Abkhazia. End summary.

Ratcheted Rhetoric...

¶2. (SBU) While there are other reasons for differences of opinion, including Lukashenka's now-dead ambition to become the President of a true Russian-Belarusian union, the move by Russia to raise the price of natural gas and crude oil for Belarus in 2007 is generally cited as the beginning of the current spat. The Belarusians had cashed in the profits for grandiose projects for years and crowed about a more successful economic model than Russia or other neighbors had.

¶3. (SBU) Recent competing public comments between Minsk and Moscow have a petty "he-said-she-said" quality about them, as well as roots in past differences of opinion, but some of them bear mentioning. During the Union State Ministerial Meeting in Minsk May 28, Russian Finance Minister Aleksey Kudrin stated that Belarus may soon be unable to service its skyrocketing foreign debt and become insolvent due to shortage of gold and foreign currency reserves. According to Kudrin, the Russian government would continue to issue loans to the GOB if the latter makes "adequate efforts" to balance and stabilize the economic situation and ensure "financial solvency and stability". Kudrin also stressed that the GOB refused to accept the \$500 million tranche of the \$2 billion stabilization loan in Russian rubles. Russian Prime Minister Vladimir Putin initially mitigated Kudrin's assessment, downplaying "extreme" evaluations of Belarus economy.

¶4. (SBU) In his turn, Lukashenka accused Kudrin of inciting "panic" and advised GOB officials against "begging" Russia for any further assistance. Belarus Finance Minister Andrey Kharkovets called Kudrin's remarks "superficial" and "biased." Russian President Dmitriy Medvedev chimed in June 3 on Lukashenka's criticism, calling his harsh statements "unacceptable" and expressing expectation for Russia's "closest partners to share" common positions. Medvedev emphasized Russia's "right to comment on the efficiency of policies" of the countries financially supported by Russia. Meanwhile,

Belarusian Prime Minister Sergey Sidorskiy labeled Kudrin "a storekeeper" and asserted that the GOB had been "investing" Russian loans "in an efficient economy" and energy-saving projects. Kudrin asserted that his assessment was "justified," while committing to pursuing negotiations with the GOB on further loans for Belarus.

¶5. (SBU) Neutral observers agree that Kudrin, for his part, did no more than speak the truth: as reported previously, the effects of the effects of the global financial crisis are deepening in Belarus. The GOB now turns off all street lights at midnight and reports of layoffs at state enterprises -- still over 70% of the economy -- are growing. Although the regime seems to have complied with the latest IMF call for further devaluation of about 5% -- accomplished gradually -- and will likely get the next tranche of \$400 million from the IMF soon, the National Bank is hoping that a significant new credit of \$5 billion or more will magically appear.

...Leads to Specific Action

¶6. (SBU) As a more concrete step, Russian Federal Consumer Protection Service head Gennadiy Onishchenko banned the importation of some Belarusian dairy products June 6, citing quality concerns. This is a tried-and-true tactic (which the Belarusians have used on occasion as well), but the impact is just beginning to be absorbed by official Minsk: production in this area has virtually no other export markets and by some accounts is valued in the billions of U.S. dollars on an annual basis.

GOB Avoids Recognition of Abkhazia, South Ossetia

¶7. (SBU) We defer to Embassy Moscow to determine how important recognition of Abkhazia and South Ossetia is to the Kremlin. It

MINSK 00000173 002.2 OF 002

is evident here that having been warned by the USG and EU, the GOB is loath to embark on such a step (although the right amount of Russian money would alleviate that reluctance). Instead, the regime has embarked upon extensive political kabuki with regard to see what it can get or what it would lose. Although Lukashenka has met with the territories' "presidents" on more than one occasion since the August 2008 conflict, he has "asked" the rubber-stamp Belarusian parliament to consider the issue. (Comment: Without success, we have looked for evidence that Lukashenka has ever previously relied on the parliament's guidance when addressing any key issue. End comment.)

¶8. (SBU) It seems plausible that Minsk will try some semi-official step, such as the opening of a trade office(s); Head of the Presidential Administration (PA) Vladimir Makey told Charge May 22 that the reason for his May 12-13 visit to Abkhazia was "purely economic." Makey, who is the rough equivalent of vice president and consigliere to Lukashenka, noted that Abkhazia would need trucks and tractors -- "even if it becomes part of Georgia again" -- and claimed that Abkhazia offered the best gravel (!) for Belarusian construction projects tied to the 2014 Olympic games in Sochi, Russia.

¶9. (SBU) At the same time, Makey previewed with the Charge a gesture he planned to make in the Georgians' favor: although since becoming PA head in 2008 he has never attended diplomatic receptions, he appeared at the Georgians' national day reception in Minsk May 26 to deliver a personal message of congratulations to the Georgian Ambassador from Lukashenka. Makey's appearance surprised the EU diplomats present, and was matched by participation of Deputy Foreign Minister Andrey Yevdochenko and parliamentarians including International Relations Committee Chair Sergey Maskevich. In contrast, Makey skipped the Italians' June 2 reception -- despite Lukashenka's recent visit to Rome -- and is not expected to appear at the Russians' event June 12.

¶10. (SBU) Because of near-total dependence on Russian energy supplies, and a largely integrated military, Belarus does not want and cannot sustain a complete economic or political break with its largest neighbor: a visit of Russian President Medvedev, allegedly in the works for July 2-3, is further evidence of that. It is worth noting that despite Minsk's interest in a "multi-vector" foreign policy, problems with Moscow have failed to motivate any positive reforms as sought by the U.S. and EU: the GOB is exercising some restraint in dealing with civil society but has avoided creating any new political opportunities, and talk of privatization has not yielded any results. Given its economic problems, the GOB continues to be interested in the removal of U.S. sanctions as well as in augmented dialogue with the USG. Whatever the situation with Russia, those interests offer some hope for improved relations between Minsk and Washington.

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